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How midsize companies are buying ERP.(enterprise resource planning software)

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Deciding which enterprise resource planning software is right for your company.

Although major vendors have been selling enterprise resource planning (ERP) software to billion-dollar companies for quite some time, the selection of products that work well for midsize companies has begun to blossom only recently. (See glossary, page 47, for definitions of italicized terms.) But from the midsize company's perspective, the choices can be mind-boggling: what to buy, who to buy it from, how to make it work and how to keep it up-to-date. Off-the-shelf solutions seldom fit perfectly. Therefore, most executives need guidance to help them choose an off-the-shelf ERP package, alter it and oversee the changes. CPAs and financial managers can start by learning from the experiences of other companies. Whether carrying the flag for the corporate accounting department, serving on a cross-functional implementation team or serving as a consultant, CPAs and other financial executives can use these guidelines to help midsize businesses make wise choices when buying and implementing ERP.

WHAT ERP IS

Companies use ERP software to facilitate the exchange of information throughout an organization. Vendors usually sell it in suites containing modules such as audit trail, payroll, purchasing, point of sale, manufacturing, inventory, job costing and bill of materials.

For example, when Belvedere Co.'s order-entry clerks couldn't keep up with constantly changing product lines and couldn't get reliable real-time data on product availability, the company's profits suffered. Customers complained about not getting what they

ordered or not getting their orders when they were supposed to. Unhappy customers returned shipments. To solve the fulfillment problems, Mark Waldron, CFO and CIO for the \$30 million manufacturer and distributor of beauty salon furnishings, went shopping for ERP. After the ERP system was installed, Belvedere could process 15% more orders on a typical day--without additional staff. Furthermore, the company was able to reduce inventory by 30%. It began to fill and ship customer orders within 48 hours, down from five days. Customer complaints dropped.

When it works well, ERP can speed up business processes, reduce costs, increase selling opportunities, improve quality and customer satisfaction and measure results continuously. When it doesn't work well, it can be a very expensive way to gum up the works. Accordingly, CPAs and other financial executives selecting ERP are participating in a make-or-break decision for their companies. Here's what they need to know.

WHOM TO BUY FROM

Usually, midsize companies buy ERP in one of two ways: directly, from a software vendor, or indirectly, through a value-added reseller (VAR). The exhibit on page 47 lists the top 10 ERP vendors to midsize and smaller companies. The figures are based on licensing revenue and include sales through VARs. Whether you purchase directly or through a VAR depends on what products you're looking for and what support you need.

The largest vendors--SAP, Baan, Oracle--have a large share of the market for ERP sold to midsize companies. But many midsize companies see advantages to buying from the vendors in the next tier down--the midmarket vendors such as Great Plains (number 10 on the list) or Solomon--which didn't make the top 10 list.

Midmarket vendors often understand and respond well to a midsize company's needs, budget and culture. Their sales staffs cater to such companies.

Software vendors recruit and train VARs, but some have closer relationships and more rigorous demands than others. The software vendors also may restrict the distribution channels and geographical areas available to the VARs that work with them or may have VARs compete with other distribution channels such as direct sales. Vendors expect the VARs they work with to invest capital--sometimes large sums--in technical staff, training facilities, offices and software purchases. Some software vendors may require the VARs to participate in co-op marketing programs, demanding that a small percentage of sales, say 2% to 4%, be directed to a budget for local ad campaigns.

A VAR usually shares a percentage of its sales with the major vendor whose products it sells and customizes for its clients. However, both these fees and the level of assistance the product supplier gives the VAR can vary significantly. Customers should ask how much

technical support the VAR or consultant can draw on, because that can be critical to a successful ERP implementation.

However, midmarket vendors may not have as many resources for ongoing support and product upgrades as the largest vendors do. While the largest vendors rarely deal directly with midsize companies, they do offer modules tailored to them through VARs--which add value by customizing standard programs for specific uses, usually in a vertical industry segment. Most of these products can be explored on the vendors' Web sites. For example, go to:

* www.asap.com: Click on "Solutions"; then on "Mid-sized Companies."

* www.oracle.com: Click on "Business Solutions"; then "Mid-sized Companies."

* www.peoplesoft.com: Click on "Product & Industry Solutions"; then "Solutions Index"; then "PeopleSoft Select for Small and Medium-sized Companies."

* www.baan.com: Click on "Indirect Channels"; then "Ban-on-Board."

Most large and many midmarket vendors offer modules geared to the needs of particular industries, such as manufacturing or distribution. A quick look at a vendor's Web site should tell you if the vendor has an ERP product directed at a given company's industry.

If a company has very specific needs in mind when it begins looking for an ERP package, it may want to work directly with a midmarket vendor that has an excellent reputation for designing a suite that meets the needs of its industry--food distribution or catalog sales, for example. Such a vendor selects specific modules needed to perform tasks important to that industry and partially customizes them with those needs in mind. For example, a company that distributes specialty coffees to chains such as Starbucks and Pasqua probably would need inventory management, sales management and distribution but could live without manufacturing and bill of materials modules. Those specific needs might steer it to a midmarket vendor targeting distributors. Buying from such a vendor gives a company a boost up the learning curve and cuts down on customization costs.

Financial executives who are comfortable with technological jargon to begin with--or who have a strong cross-functional team that can translate for them--may prefer to shop for an entire ERP package directly from a midmarket vendor. That way, the buyer gets to hear about the differences between packages firsthand and can make decisions without the help of third parties who probably are biased. The buyer can always hire a consultant with expertise in the chosen software to help with the selection and implementation. Furthermore, the buyer may get a bargain if a suite has

preconfigured modules bundled with an operating system and database.

One advantage of using a large vendor is that most of them have abundant resources for product enhancements and may offer a bigger selection of modules capable of performing a greater variety of tasks. In addition, the big ERP suppliers do a better job at maintaining the "wow" factor--dazzling users with cutting-edge features--even though the price tag also may elicit a "wow."

ERP decision makers should be aware that while VARs also may perform some consulting functions, their advice as consultants may be colored by close ties to particular suppliers. VARs work much the way car dealerships do--if you're shopping for a Lexus, you're not going to find a salesman in a Volvo showroom recommending one. Each major ERP producer has agreements with a limited number of VARs (such as Ingram Micro, Gates/Arrow and Savoir Technology Group), so choosing one may lock you into a particular company's products.

WHAT CONSULTANTS CAN ADD

Sometimes a consultant with accounting and software expertise can offer a different approach from that of a VAR. Many have considerable experience in specific industries or in comprehensive knowledge about certain modules or both. Accordingly, an industry expert may be better able to determine which suite will work best for a given company. An expert in a particular module may know more about how to get that software up and running.

Consultants are generally more independent than VARs but still are rarely fully independent. Many are more familiar with one vendor's products than with others', and some get advertising subsidies or referral fees through vendors. Accordingly, the CPA or financial executive in charge of choosing an ERP system must look carefully at the Consultant's resume to gauge if he or she is well versed in ERP appropriate to the business. When choosing a consultant, a prudent ERP decision maker should inquire about that consultant's financial ties to the software vendor it recommends.

LOCKING AND LEASING OPTIONS

One neat feature on some of the more sophisticated midmarket suites: The company gets all the modules with the purchase but doesn't have access to any module until it pays for the "key" to it. If the company wants to add on a module, say contact management, the company would call or e-mail its vendor to "unlock" that module--no visit and no consulting fees necessary.

Instead of buying, some companies lease ERP modules or suites. That allows them to rent only the modules they need. CPAs and other financial executives can expect renting to save on equipment and implementation costs. Leased software usually is accessed over

the Internet rather than installed on the company's hardware. Once the company has narrowed down the software products it is interested in, it can investigate the rental option online at the vendor's Web site.

With "rent-an-app" (as techies call it), the ERP software vendor assumes responsibility for keeping the system running and the applications up to the minute, all behind the scenes and out of your orifice. That can be liberating, but it requires a lot of trust--and secure firewalls--because a company using the leased software puts all its data capabilities in the hands of the online software vendor. It also may involve considerable expense and inconvenience; if that vendor changes formats, or Microsoft changes its data-handling platform--as it frequently does--the company has no choice but to do the same.

TROUBLESHOOT EARLY

Once a company has chosen the ERP it needs and who to buy it from, it still needs to implement it and keep it up-to-date. The greatest ERP package in the world is useless if no one with the know-how to install and maintain it is available. Before a company commits to a particular ERP package, the decision makers should be sure the information technology people needed to implement and upgrade it--whether they come from inside or outside the company--are available and affordable. A successful IT team must know both the company's business and the ERP package. An adequately staffed consultant or VAR offers troubleshooting support to the ERP purchaser. The buyer must have confidence that insiders and outsiders are comfortable with each other when it makes a commitment. Look for a harmonious fit. For example, smaller vendors may not have enough staff to do a multilocation installation simultaneously.

Some VARs offer rapid implementation packages, which are supposed to get the ERP system up and running more quickly, usually in a set time period. Some claim they can reduce installation time by more than 50% with the use of packages preconfigured with the needs of a particular industry in mind. Nonetheless, if there aren't enough people to finish the job, the implementation may not be so rapid. Or worse, a shorthanded VAR could leave quirky, company-specific problems behind--expensive problems that must be fixed later.

Some companies plan for the risks posed by a scarcity of IT people by counting on and budgeting for some personnel turnover. The best way to contain the risk of a personnel shortage, however, is to choose the ERP suite that requires the least customization.

ERP expertise is not cheap. According to a 1998 report by Systems Resource Group (www.srg.com.bs), a technology and communications consultant based in the Bahamas, the price of

experienced ERP people (salary, excluding benefits) typically runs
* \$400 per hour for a consultant from one of the Big Five or another large consulting firm.

* \$90,000 per year for a full-time college graduate with four years' IT experience.

* \$100,000 to \$200,000 per year for a full-time project manager or senior consultant.

A CONSULTANT GETS THE LAST WORD

Kevin Koellner, CPA, is a consultant with the Hunter Group in Baltimore. As its finance practice leader, he offers these tips:

* Set realistic goals for the project's scope, financing and duration. To do this, break the project into bite-size pieces, such as planning, acquisition, implementation, operation and improvement. To budget, get bids, take the average of the two or three finalists and add 25% to 50% to that.

* Try to eliminate distinctions between insiders and outsiders by creating a project-focused team of company people and consultants. Give them the authority to implement their decisions quickly.

* The internal team should consist of people who are dedicated to the project full-time. Support them with subject-matter experts who contribute on an as-needed basis.

* Dedicate a physical space where the team can work together, away from everyday operations and distractions.

* Commit to two-way knowledge transfer. Consultants should inform clients about application specifics and business best practices. In the other direction, the client should familiarize the consultant with the company's business needs, especially as they change.

* Facilitate software upgrades and maintenance by minimizing customization. Instead, seek out acceptable ways to change business processes.

[GRAPHS OMITTED]

RELATED ARTICLE: Some Helpful Web Addresses

www.amrresearch.com

AMR Research, Inc., is a Boston-based market analysis organization specializing in enterprise applications and related trends. Find the

results of its ERP vendor surveys by clicking on "press releases."

www.computerworld.com/home/online9697.nsf/all/970818ERPlinks

Computerworld sponsors this site with many links to other useful ERP sites which include articles, publications and chat rooms.

www.erpfans.com

Created and maintained by Rao Tella of Acuway Services Inc., a Web site design company, this site has links to support groups for many vendors, plus a long list of ERP vendors.

www.apics.org/magazine/june99/default.htm

Formerly the American Production and Inventory Council, now the Educational Society for Resource Management, this nonprofit offers educational materials. The address takes you directly to the June 1999 issue of Performance Advantage, its magazine. Every year, the June issue is dedicated to ERP topics. Check out the June 1998 and June 1997 issues, too.

RELATED ARTICLE: EXECUTIVE SUMMARY

- * THE CHOICE OF ENTERPRISE RESOURCE PLANNING software can be a make-or-break decision for a company. ERP comes in modules named after the functions each performs such as general ledger, accounts payable, accounts receivable, payroll, purchase orders, inventory, job costing, point of sale, manufacturing and bill of materials.
- * A COMPANY MUST DETERMINE whether it will be more comfortable with a direct purchase from a vendor or an indirect one through a value-added reseller (VAR).
- * ERP SUITES ALWAYS NEED CUSTOMIZATION to fit a particular business. Midsize companies usually employ consultants to assist with this, but sometimes a VAR is enough.
- * TO CHOOSE THE RIGHT CONSULTANT, a company should ask each candidate detailed questions about its relationship with the vendors whose products it supports. Most consultants work with only one or two products or vendors.
- * PERSONNEL SHORTAGES can short-circuit an ERP installation. Make sure the company lines up enough people--both inside and outside--to complete the implementation. More customization requires more people.
- * BUDGET CAREFULLY--it's easy to underestimate costs by 40% to 75%. To minimize costs, choose software that doesn't need much

customization.

RELATED ARTICLE: Climb Every Mountain

Black Diamond, a privately held Salt Lake City-based manufacturer and distributor of rock-climbing and skiing equipment, with \$20 million in annual revenues, wanted to be known as the easiest-to-work-with business in the mountain equipment industry. When Clarke Kawakami, CPA, the CFO/CIO, went ERP shopping, he said he found "lots of amazingly functional systems for \$59.95, but they weren't nearly functional enough for us. Then there were \$500K+ systems that would do everything, including flush and put the seat down." Black Diamond's budget was more than \$60 but definitely less than \$500,000.

Kawakami replaced a seven-year-old computer system that "had information trapped in its black box"--the company could not access those data for the customized reports it needed. The old software also hindered Kawakami's efforts to consolidate subsidiaries and divisions both here and abroad.

Together with Controller Scot Carlson, Kawakami chose midmarket vendor Navision Software of Norcross, Georgia. The ERP implementation took six months, three months under schedule. At first, Kawakami was hesitant to go with Navision's system because it uses a proprietary database (C/SIDE) but he was reassured by the Get that it met open database connectivity (ODBC) standards, in this case a Microsoft standard. The main attraction: the software's features for handling multiple currencies, particularly its euro facility. Black Diamond does business internationally. Navision's corporate headquarters are in Denmark, so its euro capabilities are a given.

After implementing the basic set of modules, Kawakami decided to put Black Diamond's new ERP to another test: he hoped to set up a top-notch business-to-business customer service Web site. "Once we pulled the trigger on the project, we were able to field the Web site in about three weeks," he says. That's pretty quick. He's a happy camper--and climber.

RELATED ARTICLE: The Student Assistance Laundry List

Mike Grant, CPA, director of corporate finance for the Vermont Student Assistance Corp. (VSAC), had problems with an antiquated system: VSAC's 15-year-old software just couldn't keep up with the organization's needs.

VSAC, a not-for-profit based in Winooski, Vermont, services 65,000 accounts totaling \$115 million. Grant, who reports to the CFO, is part of an internal accounting team of 16 accountants. The team administers four kinds of grants as well as payroll and purchasing.

* Technical support for VSAC's old software had evaporated, and it

was inadequate for Grant's laundry list of essential tasks:

- * Consolidations across four companies.
- * Intercompany transfers.
- * Integrating general ledger, accounts payable and purchase orders.
- * On-screen look-up capability.
- * Repetitive transaction processing.

Grant decided to put the software on an IBM AS/400 platform because he needed the firepower and thought IBM could deliver the goods; he then spent six months shopping for ERP software designed for the IBM platform. His budget: approximately \$100,000.

Eight vendors with ERP products that run well on the IBM AS/400 were within his price range. Grant arranged conference calls between each prospective vendor and the VSAC accountants. "We wanted to see each program work with our data," Grant says. "We eliminated those that agreed only to a canned demonstration. That left two equally qualified finalists." They were J. D. Edwards of Denver and Infinium Software of Hyannis, Massachusetts.

Even though J. D. Edwards was bigger and better known, Grant went with Infinium because it was closer to VSAC geographically. However, "the first Infinium consultant just didn't work out," Grant says. Once that person was replaced, though, "the second one had terrific chemistry with us, and things went smoothly after that."

Infinium trained three VSAC accountants in report writing, helped everyone at VSAC get up to speed with the general ledger module capabilities and brought one VSAC reformation technology person to Hyannis for training. Nonetheless, the accounts payable/purchasing interface turned out to be unexpectedly difficult to customize. That consumed some extra time and dollars, but Grant was not too disturbed by the glitch. "No software can match your needs 100%," he says.

To minimize the need for future customization and to use the software efficiently, Grant joined an Infinium user group with other midsize customers. That group submitted a wish list of 10 software changes it wanted Infinium to make and got a promise that 6 of them would be in the next product release.

RELATED ARTICLE: ERP Lingo

Enterprise resource planning (ERP) software. A suite of software applications that allows an enterprise to share information

throughout the organization.

Functionalities. Capabilities, or the functions that a program module can perform.

Midsize companies. In this article, companies with annual revenues from \$20 million to \$500 million, unless otherwise noted.

Modules. Units of software applications. A typical ERP suite includes basic accounting modules, such as G/L (general ledger), A/R (accounts receivable), A/P (accounts payable) and PO (purchase orders). Additional business-specific units include contact management, payroll and inventory.

Open database connectivity (ODBC) standards. Software coding standards that ensure a database is compatible with popular platforms such as Windows NT and with the applications, or modules, that will run on it.

Rapid implementation package. A prepackaged suite of applications geared to a particular industry or vertical market such as manufacturing or distribution.

Rent-an.app. A leased unit of an ERP suite. The software vendor assumes responsibility for keeping the system running, and the lessee puts its data online under the safekeeping of the vendor. Value-added reseller (VAR). A software customizer that contracts with a vendor to resell modified versions of that vendor's software to a specified market.

RELATED ARTICLE: CPA ERP Consultants: Three Capsule Profiles

James Keton, CHAPTEC Solutions

James Keton is the CEO of CHAPTEC Solutions of Irving, Texas, a 30-person consulting firm currently serving about 350 ERP clients. One of only 15 VAR. s authorized by giant SAP to serve midsize companies in the United States, he began his career at Ernst & Ernst in 1973. Fascinated by computers, he went back to school, received an MBA in IS from the University of Texas in the 1980s and has used his dual background to implement ERPs ever since.

"I guess I'm one of those people who doesn't just want to drive a car. I want to know how and why it works," he says.

Geni Whitehouse, Navision Software

Geni Whitehouse, CPA, is strategic alliance manager for ERP at Navision Software at the Danish company's U.S. headquarters in Norcross, Georgia. She also started in a Big Five firm, taking computer programming courses on the side. After establishing an IT practice for a regional accounting firm, she recently moved to

Navision, a midmarket vendor.

"CPAs are good at translating technical information for nontechnical users," Whitehouse says.

Morgan Hunt, BASE Consulting

Morgan Hunt, CPA, is a self-taught computer whiz. To learn about IT, he bought software packages and devoured the manuals. Now he is a principal of BASE Consulting in Oakland, California, using Oracle ERP software.

Hunt tries to find a project champion at each client company, preferably the CFO or CEO.

"The CFO who understands the benefits of the project can get valuable internal support for the initiative," Hunt says, even if that CFO is not technologically adept.

MARLENE PITURRO, PhD, MBA, is a business journalist and organizational consultant in Hastings-on-Houston, New York. Her stories have appeared in the New York Times, Managed Healthcare News, CFO magazine, PWC's BEAN (online) and Public Issues.

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